

Message Text

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AID-20 CEA-02 CIEP-02 COME-00 EB-11 FPC-01 H-03

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 3310

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

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C O N F I D E N T I A L SECTION 1 OF 2 TOKYO 9277

E.O. 11652: GDS

TAGS: ENRG, JA

SUBJECT: JAPAN'S ENERGY POLICY

SUMMARY: TWO ADVISORY BOARDS TO THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY HAVE COMPLETED INTERIM REPORTS ON ASPECTS OF JAPAN'S ENERGY POLICY RE-EVALUATION NOW UNDERWAY. NEITHER REPORT--ONE ON LONG RANGE DIVERSIFICATION OF ENERGY SOURCES, AND ONE DEALING WITH NEAR TERM PETROLEUM PROBLEMS--ADVOCATES DRASTIC CHANGE IN JAPAN'S APPROACH TO SECURING STABLE AND ECONOMICAL SUPPLIES OF ENERGY. BOTH SIMPLY RECOMMEND PRUDENT MEASURES TO DIVERSIFY JAPAN'S SOURCES OF ENERGY, BY TYPE, GEOGRAPHICAL AREA, AND METHOD OF ACQUISITION. THE REPORTS ARE EXPECTED TO BE SUBMITTED TO MITI MINISTER NAKASONE LATER THIS MONTH. END SUMMARY.

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1. THE PETROLEUM POLICY GROUP OF THE OVERALL ENERGY

COMMITTEE HAS COMPLETED ITS WORK ON A FRAMEWORK FOR A NEW PETROLEUM POLICY IN THE NEAR AND MEDIUM TERM, TO SERVE AS THE BASIS FOR MORE DETAILED FURTHER STUDY. IN SPITE OF INDECISIVE TREATMENT OF MANY IMPORT ISSUES, THE GROUP'S REPORT WILL PROVIDE CONTEXT FOR DEBATE AS JAPANESE GOVERNMENTAL AGENCY BUDGET REQUESTS--AND THUS POLICIES--CRYSTALIZE OVER THE NEXT FEW WEEKS.

2. TO HELP SECURE A STABLE SUPPLY OF OIL AT "REASONABLE" PRICES, THE GROUP'S REPORT CALLS ON GOVERNMENT AND INDUSTRY TO:

A) PROMOTE VIGOROUS EXPLORATION FOR OIL AND GAS ON THE CONTINENTAL SHELF AROUND JAPAN;

B) EXPAND DIRECT DEAL (DD) AND GOVERNMENT TO GOVERNMENT (GG) ARRANGEMENTS WITH OIL PRODUCING COUNTRIES, AND ESTABLISH ONE OR MORE SEMI-GOVERNMENTAL "IMPORT COMPANIES" TO HANDLE THE EXECUTION OF GOVERNMENT TO GOVERNMENT CONTRACTS;

C) CREATE A SEMI-GOVERNMENTAL "STOCKPILING" COMPANY TO PROVIDE STORAGE TANKS AND SPACE TO PARTICIPATING COMPANIES, FACILITATING RAISING THE LEVEL OF RESERVE OIL STOCKS TO A 90 DAY LEVEL OVER THREE YEARS BEGINNING IN 1975 (AT AN ESTIMATED COST OF 5.3 BILLION DOLLARS).

D) DRASTICALLY REDUCE NUMBER OF WHOLLY JAPANESE CAPITAL BASED COMPANIES AT THE DEVELOPMENT, REFINERY AND WHOLESALE STAGES AS FIRST STEP TOWARDS AN INTEGRATED, WHOLLY JAPANESE COMPANY.

3. THE GROUP DID NOT, HOWEVER, SUCCEED IN RESOLVING DIFFERENCES AMONG GOVERNMENT AND BUSINESS OVER GOVERNMENTAL CONTROL OF THE OIL INDUSTRY. DISPARATE VIEWS ARE SIMPLY STATED IN PARALLEL, LEAVING CONCRETE MEASURES TO FURTHER STUDY. REPORT STATES, FOR EXAMPLE, THAT PRIMARY RESPONSIBILITY FOR INCREASING STOCKS TO 90 DAYS SHOULD REST WITH PRIVATE SECTOR AND THAT INDUSTRY'S

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"INDEPENDENCE" SHOULD BE RESPECTED. YET IT ALSO CALLS FOR EXTENSIVE AND OVERT GOVERNMENTAL INTERVENTION AT IMPORT, PRIMARY SALES AND SALES STAGES, IN CONTRAST TO PREVIOUS GOVERNMENT RELIANCE ON ADMINISTRATIVE GUIDANCE AND ON FORMAL LIMITATIONS ON THE CONSTRUCTION OF NEW REFINERIES. REPORT ALSO AVOIDS TOUGH QUESTION OF JUST HOW TO "REORGANIZE" JAPANESE CAPITAL BASED DEVELOPMENT, REFINING AND PRIMARY SALES COMPANIES

INTO A KIND OF "JAPANESE MAJOR". STRESSING VOLUNTARINESS,
STUDY SIMPLY ASKS THAT INDUSTRY PUT FORTH A PROPOSAL
AS SOON AS POSSIBLE.

4. ACCORDING TO A KEY MITI MEMBER, GROUP DOES NOT
ADVOCATE A SHIFT IN JAPAN'S BASIC OIL POLICY OF RELIANCE
ON THE MAJORS FOR BULK OF OIL IMPORTS. RATHER, IN
LIGHT OF TREND TOWARDS PARTICIPATION ARRANGEMENTS AND
PROBABLY NATIONALIZATION, JAPAN SHOULD STRIVE FOR
GREATER FLEXIBILITY IN THE RANGE OF RESPONSES OPEN TO
IT. GG ARRANGEMENTS, FOR EXAMPLE, REQUIRE ORGANIZATIONAL
FLEXIBILITY TO MEET EXIGENCIES OF DIVERSE COUNTRIES.
ALTHOUGH LARGELY PAPER ORGANIZATIONS, NEW "IMPORT
COMPANIES" WILL ENHANCE OPERATIONAL FLEXIBILITY BY
IMPROVING PROCEDURAL EXECUTION OF MULTIFARIOUS GG CON-
TRACTS. AT THE SAME TIME, MITI IS AWARE THAT EXTERNAL
CONDITIONS IMPOSE LIMITS TO THE ORGANIZATIONAL MODES
OPEN TO IT. THUS DIRECT PRIVATE DEALS WILL BE ENCOUR-
AGED WHERE APPROPRIATE, BUT CERTAIN OPPOSITION BY OIL
PRODUCING COUNTRIES PRECLUDES ANY UNIFIED NATIONAL
APPROACH TO SPOT OFFERS.

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5. MITI EXPECTS TO CARRY OUT PROPOSED MEASURES LARGELY WITHIN EXISTING LEGAL PARAMETERS, ALTHOUGH SOME REVISION OF CURRENT LAWS MAY EVENTUALLY TAKE PLACE. MITI WILL FIRST, HOWEVER, HAVE TO PREPARE A BUDGET FOR SUBMISSION TO MINISTRY OF FINANCE BY END OF AUGUST TO FUND NEW SEMI-GOVERNMENTAL COMPANIES AND TO EXPAND EXPLORATION ACTIVITIES ON CONTINENTAL SHELF. RESULTS OF THIS BUDGET PROCESS WILL SET POLICY LINES IN PETROLEUM FIELD FOR NEAR TERM.

6. OVER-ALL ENERGY RESEARCH COMMITTEE HAS ALSO ISSUED A BROAD SET OF RECOMMENDATIONS FOR SECURING A STABLE AND BALANCED SUPPLY OF ENERGY THROUGH THE 1980S. COMMITTEE ANTICIPATES THAT JAPAN'S ENERGY DEMAND WILL INCREASE AT AN ANNUAL RATE OF BETWEEN 5.6 PERCENT AND 8 PERCENT, WELL BELOW RECENT 12 PERCENT. BUT JAPAN'S CONFIDENTIAL

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DEPENDENCE ON OVERSEAS SOURCES OF SUPPLY, ESPECIALLY FOR ALL-IMPORTANT PETROLEUM, WILL REMAIN ABOVE 90 PERCENT OF DEMAND. UNDER THESE ASSUMPTIONS, THE COMMITTEE HAS RECOMMENDED THAT GOVERNMENT TAKE FOLLOWING STEPS TO BRING RATE OF DEPENDENCE ON OIL DOWN FROM THE CURRENT 75 PERCENT, TO 67-68 PERCENT IN 1980, AND TO 61-65 PERCENT BY 1985;

A) INCREASE USE OF NUCLEAR POWER FROM CURRENT 0.7 PERCENT OF TOTAL ENERGY CONSUMPTION TO 11.4 PERCENT;

B) ENLARGE PROPORTION OF LNG USE FROM PRESENT 1.3 PERCENT TO 8.9 PERCENT;

C) PROMOTE IMPORTATION OF COAL AND STANDARDIZE DOMESTIC COAL PRICE STRUCTURE;

D) DEVOTE MORE BUDGETARY RESOURCES TO RESEARCH INTO GEOTHERMAL, SOLAR AND NUCLEAR ENERGY DEVELOPMENT. IN PARTICULAR, BUDGET OF OIL DEVELOPMENT CORPORATION SHOULD BE INCREASED TO STUDY OIL RECOVERY METHODS FROM OIL SAND AND SHALE.

7. COMMENT: ALTHOUGH THESE REPORTS OUTLINE ONLY IN THE BROADEST TERMS A PROGRAM FOR DIVERSIFICATION OF JAPAN'S ENERGY SOURCES, AND FUNDING FOR THE RECOMMENDED PROJECTS HAS YET TO MEET TEST OF COMPETING NEEDS,

THEY DO REPRESENT DIRECTION JAPAN'S ENERGY POLICY
LIKELY TO TAKE.
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